

Exportline

Presentation to
California Public Employees
Retirement System

May 17, 1995



Export Credit Corporation

Executive Introduction

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Purpose of Export Credit Corporation

Exportline

- **Provide insured/guaranteed export receivable financing to small and medium-size companies on a national basis.**
- **Enable these companies to efficiently “outsource” the administration of their export receivables and thereby reduce overhead.**
- **Utilize state of the art on-line computer/telecommunication systems to integrate all aspects of the export trade finance transaction.**
- **Securitize the insured/guaranteed export receivables to reduce ECC’s funding costs and leverage its capital base.**



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Forces Propelling Creation of ECC

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- Explosive growth in U.S. exports since 1987 (\$240 billion to \$502 billion in 1994), and projected \$1 trillion by year 2000.
- Huge growth in exports by small to medium-size companies (\$72 Billion in 1987 to \$151 billion in 1994), and projected \$300 billion by the year 2000.
- Major breakthroughs in computer/telecommunications technologies and cost.
- Evolvment of Asia/Pacific region as major growth market for U.S. exports and ECC's proximity to these markets.
- The lack of interest by most U.S. banks in financing exports by small and medium-size businesses.



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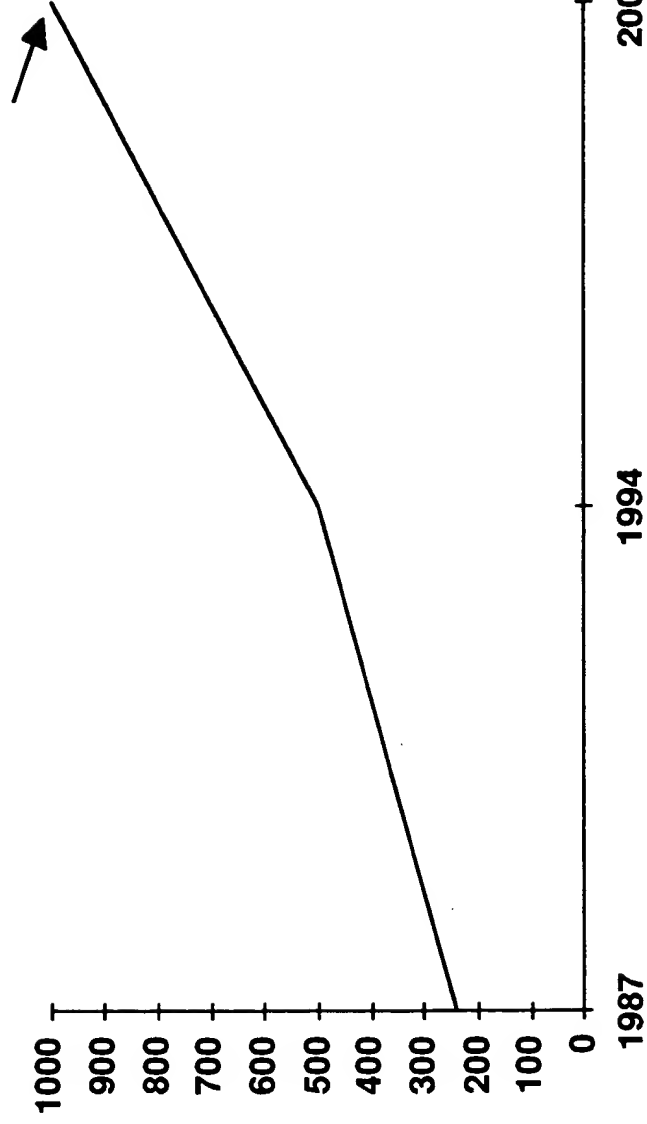
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Potential Market

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U.S. Exports (\$ Billions)



* Assumes continuation of average annual growth rate of 12% from 1987 to 1994



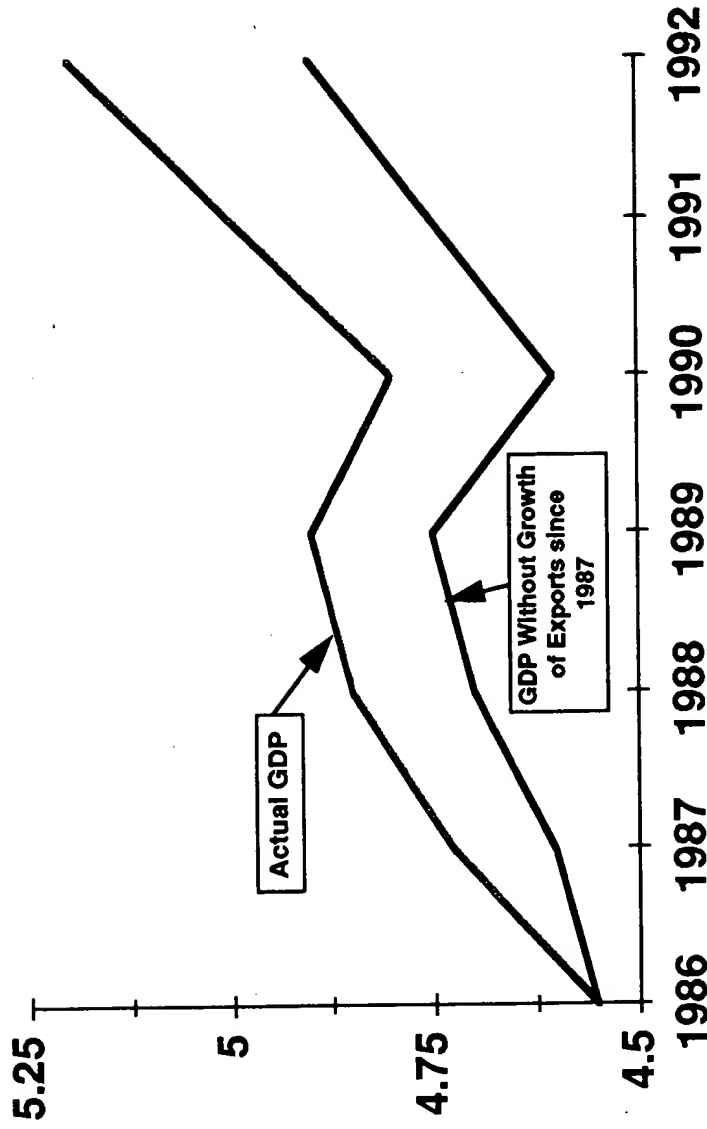
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The Effects of Trade on the U.S. Economy in Trillions of 1987 Dollars

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Note: Refers to exports of goods and services

Source: Office of the U.S. Trade Representative; Commerce Department



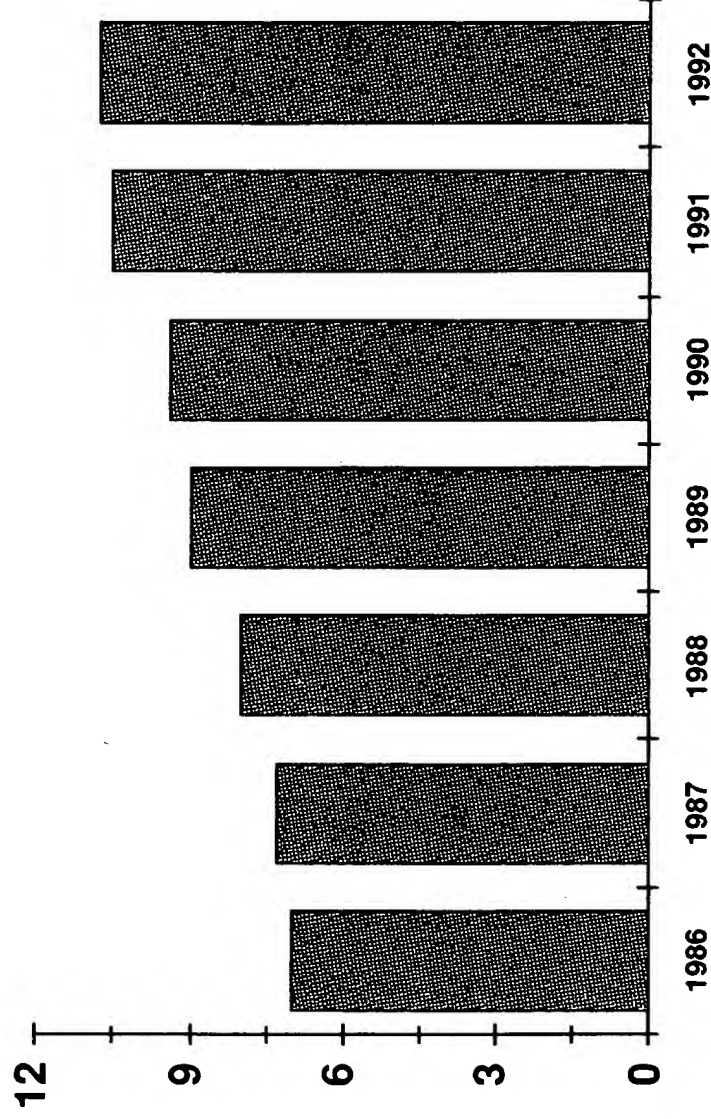
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The Effects of Trade on Jobs Trade Related, in Millions

Exportline



Note: Refers to exports of goods and services

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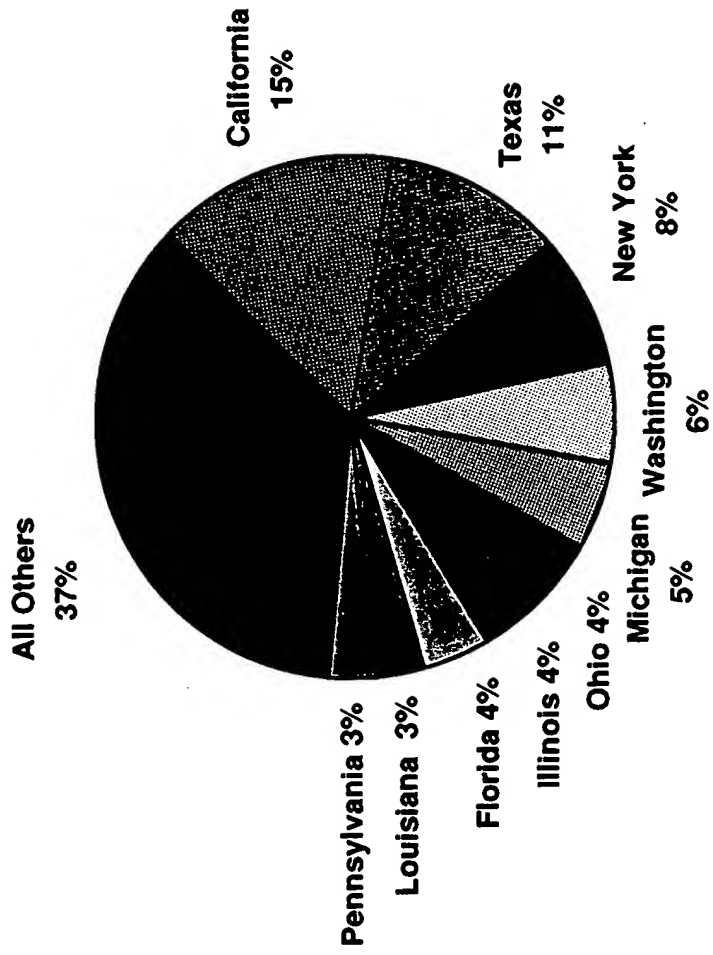
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10 Major Exporting States

Exportline

% 1993 U.S. Exports



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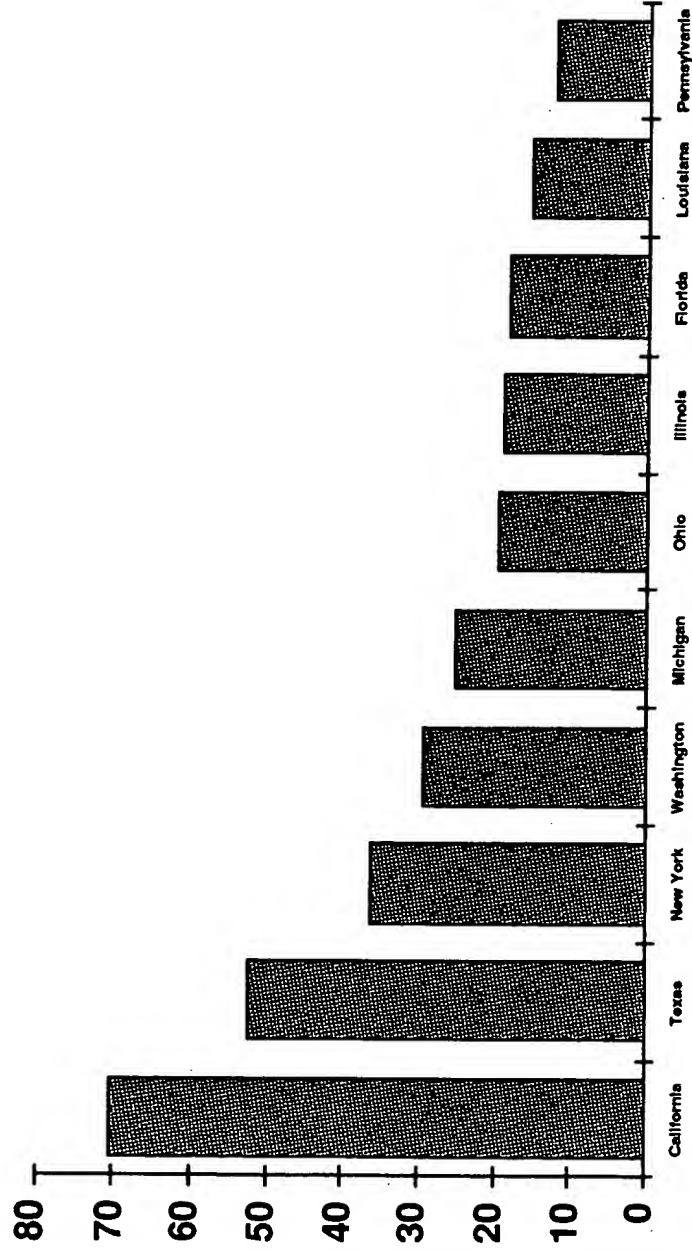
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10 Major Exporting States

Exportline

\$ 1993 U.S. Exports (\$Billion)



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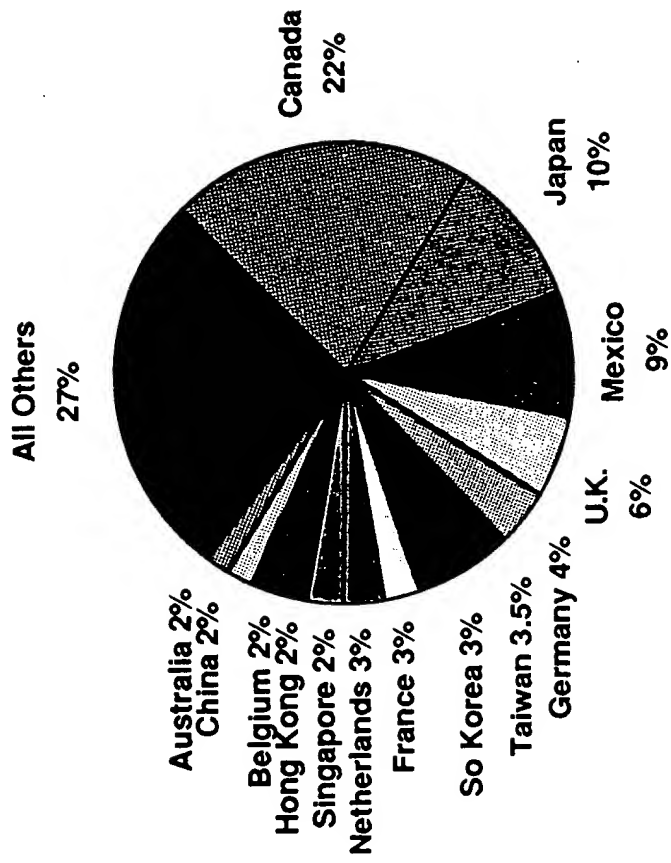
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14 Major Foreign Markets

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% 1993 U.S. Exports
(Total of \$465 Billion)



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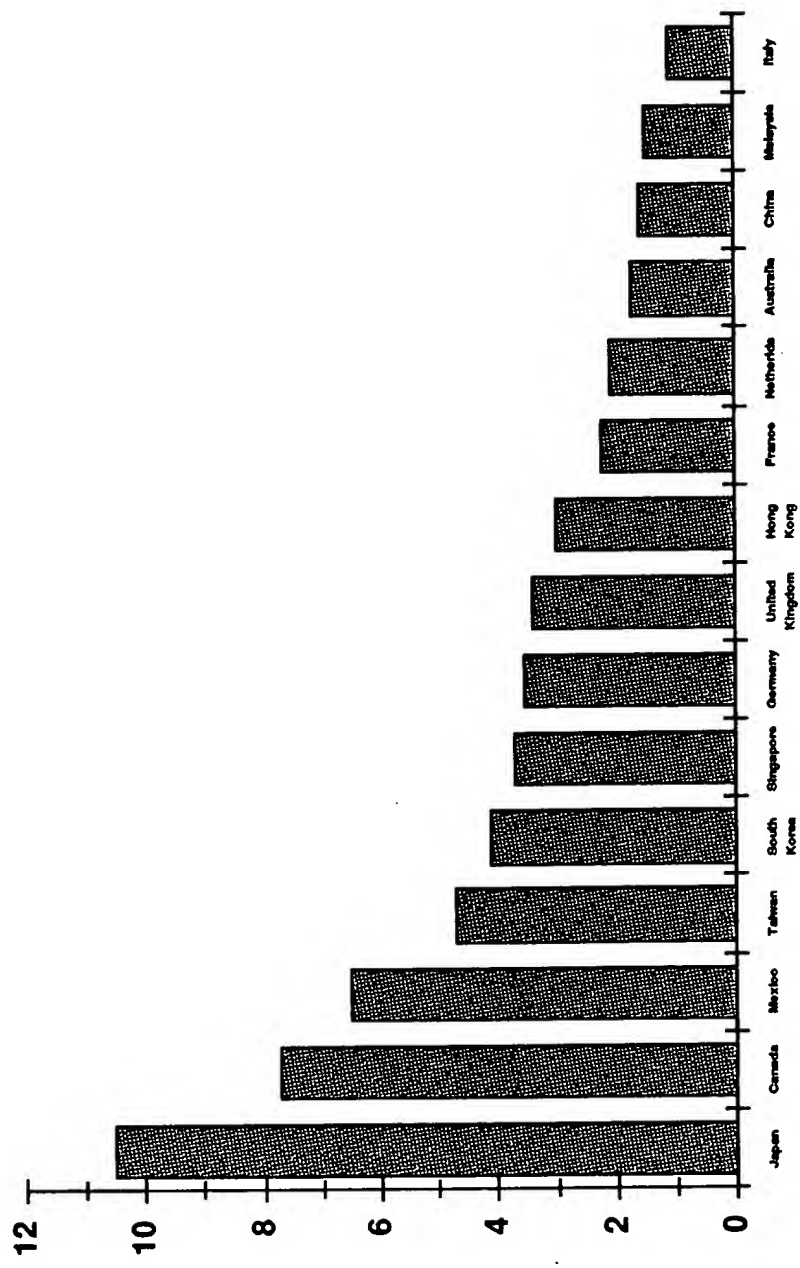
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Major California Foreign Markets

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\$ 1993 California Exports (\$Billion)



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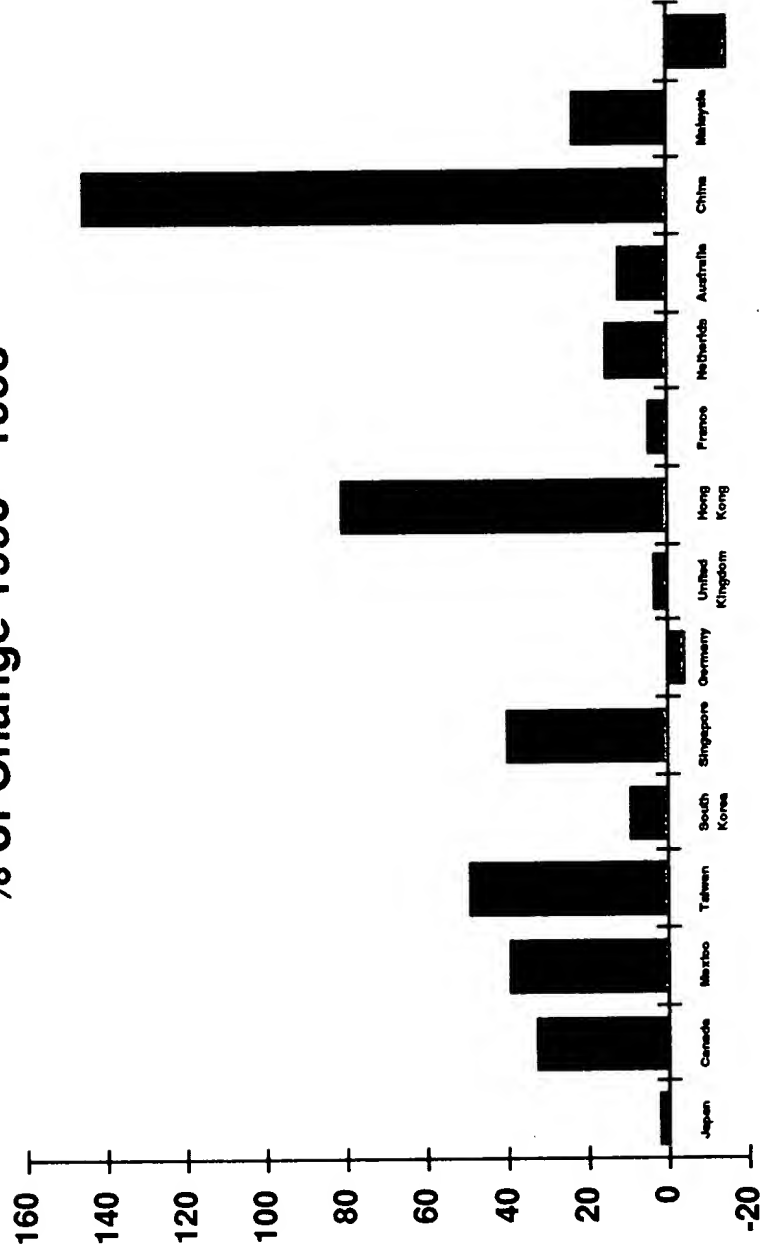
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Major California Foreign Markets

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% of Change 1990 - 1993



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Impact of Exports on California Economy

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- California is the U.S. number one exporting state. Its exports of \$80 billion in 1994 was nearly 1/6 of total U.S. exports, and is expected to grow to over \$160 billion by the year 2000.
- From May 1990 through December 1992, California lost over 800,000 jobs. Meanwhile exports grew by \$11.6 billion, creating or retaining more than 232,000 jobs.
- California exports generate about 1.8 million jobs or 13% of the state's total employment.
- 1992 California exports generated about \$3 billion in corporate, income and sales taxes.
- 48% of 1993 California exports were to the Pacific Rim region



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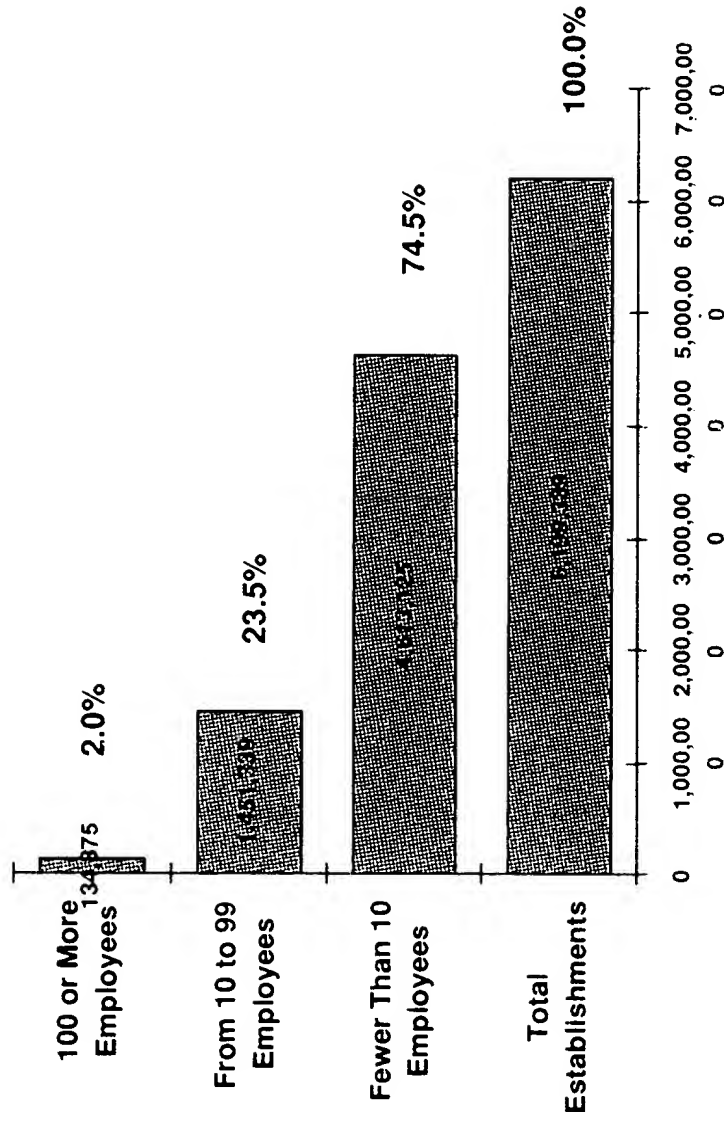
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How Big Is Small Business

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Small Business Remains the Largest and Most Dynamic Employer (Number of Establishments)



Source: San Francisco Chronicle, 2/7/94 - U.S. Census, 1991



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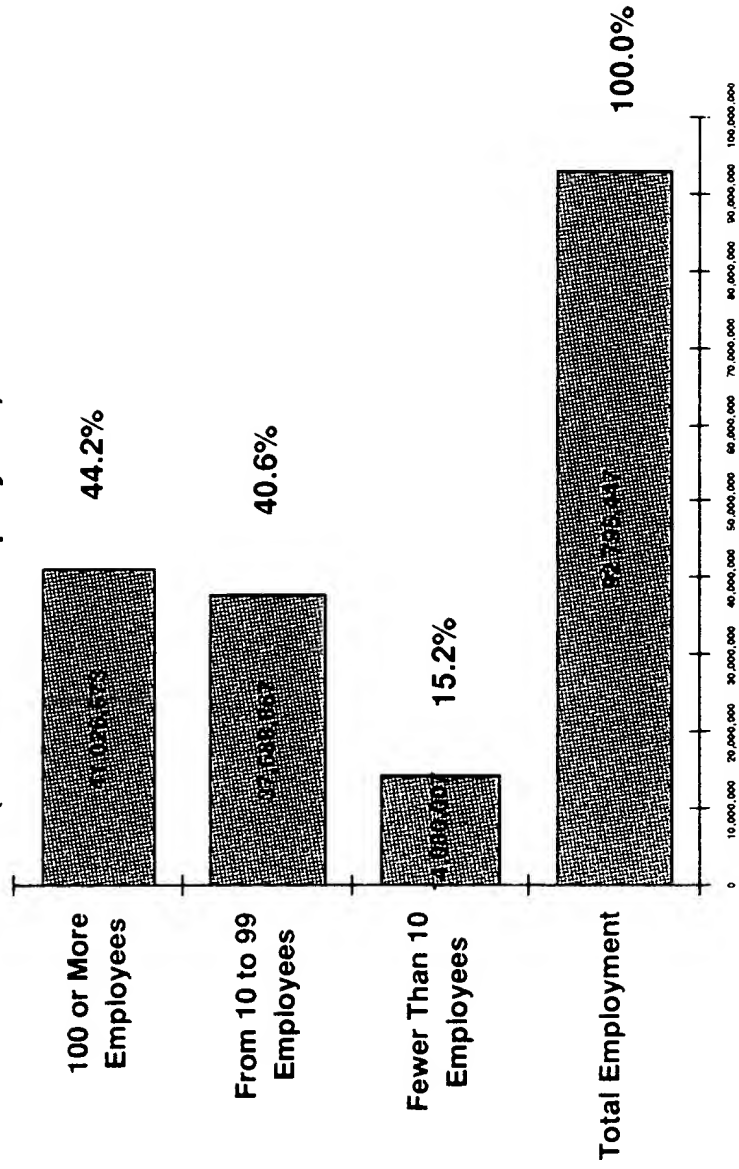
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How Big Is Small Business

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Source: San Francisco Chronicle, 2/7/94 - U.S. Census, 1991



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Small Business Accounts for Largest Job Growth

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- In the past few years, businesses with fewer than 50 employees have accounted for two-thirds of all new jobs, according to surveys by Dun & Bradstreet. At the same time, Fortune 500 companies have been shedding jobs at an annual rate of nearly 2%.
- The U.S. has recently replaced Japan as the world's most competitive economy for the first time since 1985. Small and medium-size companies are among the most efficient and competitive in their industries with the largest growth potential.
- California has the largest number of middle market companies in the U.S. with sales from \$5 to \$125 million.

Sources: San Francisco Chronicle, 2/7/94
Wall Street Journal, 9/7/94 - World Competitiveness Report



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Small Business Provides Largest Export Growth Potential

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- The engine for higher levels of U.S. exports are small and medium-size companies and their international orientation.
- These companies represent approximately 30% of the dollar value of export shipments and 96% of exporters.
- They represent an estimated \$150 billion of 1994 U.S. exports, and are projected to represent \$300 billion of year 2000 U.S. exports.
- About one-half of U.S. companies with annual revenues under \$100 million exported their products in 1993, up from 36% in 1990, according to a study of 1,762 companies conducted by B.D.O. Seidman.

Sources: Export Finance: "How the U.S. Measures Up", 1994
Wall Street Journal, 9/7/94 - B.D.O. Seidman Report
Discussions with Dept. of Commerce - Trade Statistics Dept., 12/94



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Lack of Export Financing and Complexity Deters Small to Medium-Size U.S. Exporters

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- **Commercial Banks are providing limited international trade finance to small and medium-size exporters**
 - Export receivables are typically excluded from exporters borrowing base
 - Banks prefer to work with large exporters with strong credit ratings
 - Banks do not have administrative infrastructure to monitor export receivables and credit insurance
 - Banks are also concerned about the capability of small to medium-size exporters to administer their own export receivables and credit insurance

- **The lack of available export financing is one of the major constraints on these companies**
 - \$5 billion in international sales and potentially 100,000 jobs are unrealized only because of inadequate export financing - one of the biggest obstacles for small business exporters
 - In contrast to their European competitors, the vast majority of U.S. exporters, small and mid-size companies, cannot rely on a functioning export financing environment

Source: Export Finance: "How the U.S. Measures Up," 1994 - Small Exporters Association



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ECC Will Fill Need of Small and Medium Size Exporters

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- **Provide short term (Up to 180 days) financing of export receivables**
- **Provide medium term (Up to 5 years) credit to finance exports of capital equipment sold to foreign commercial and government projects**
- **Provide complete export receivables administration services to customers from the initiation of the order through shipment, financing and collection of the export receivable**



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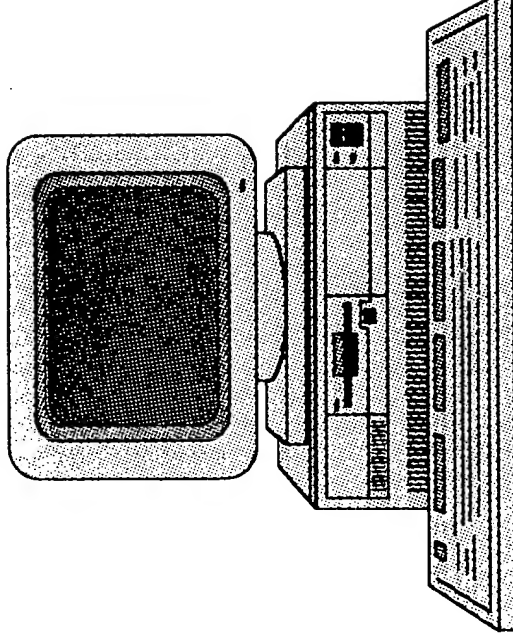
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Small to Medium-Size Exporters Need a Simple Way to Finance and Administer Export Receivables

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- **Advances in Information and Telecommunications Technologies make it possible to efficiently deliver and administer export financing services to numerous exporters on a national basis**
- **These Technologies will allow ECC to offer Exporters sophisticated yet easy to use products**



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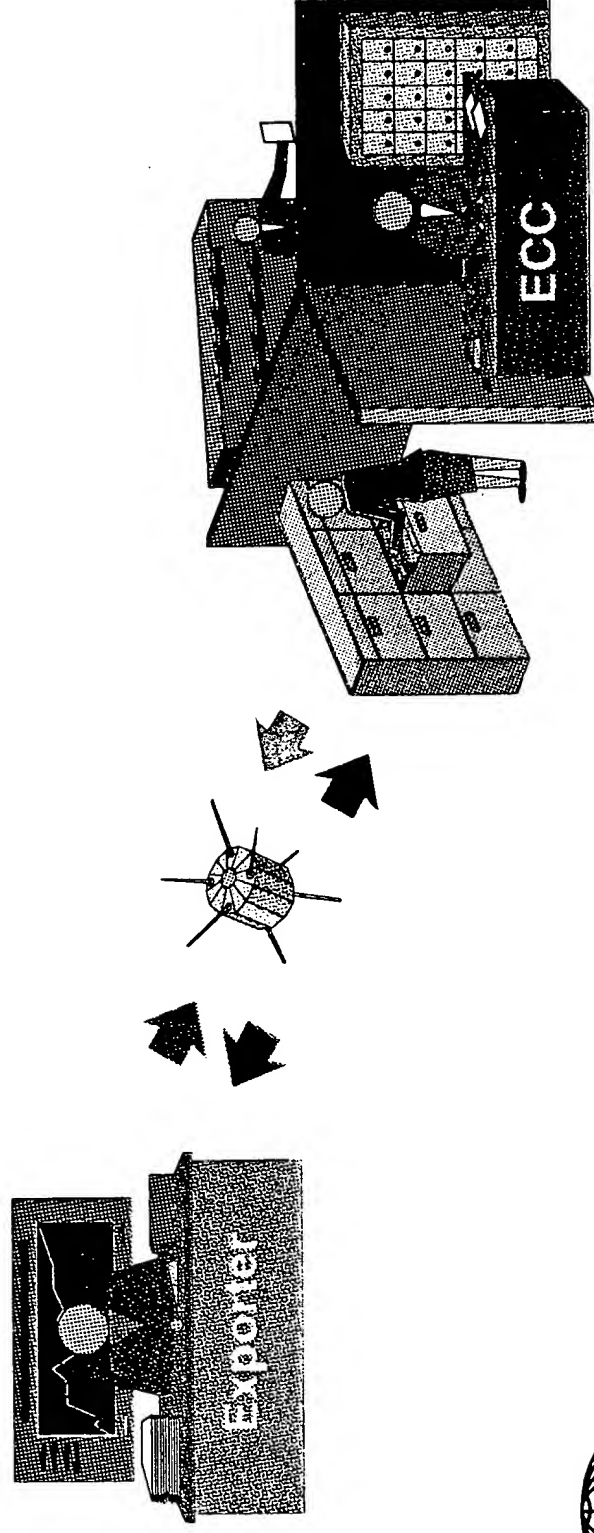
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Exporters Will Outsource to ECC Export Receivables Administration

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- ECC's products will provide the highest level of service to its export customers on a cost effective basis
- Products will be simple and unobtrusive to Exporter but highly accurate, integrated and operationally complete
- Exporter will have access to ECC's international trade finance expertise



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ECC Performs Key Operational and Administrative Functions

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- ECC will operate as an export finance company specializing in providing export receivable financing, documentation and administrative services to small and medium-size companies
 - ✓ **Pre-qualification of Exporter**
 - ✓ **On-line interface between Exporter and ECC**
 - ✓ **Review and Monitor Buyer credit limits**
 - ✓ **Monitor Export Credit Insurance Policies**
 - ✓ **Maintain Documentation in case of later claim**
 - ✓ **Monitor and Administer receipt of cash from Foreign Buyer**
 - ✓ **File Monthly Reports with appropriate agencies**
 - ✓ **Complete and File Claims documentation and Administer Claims Process**



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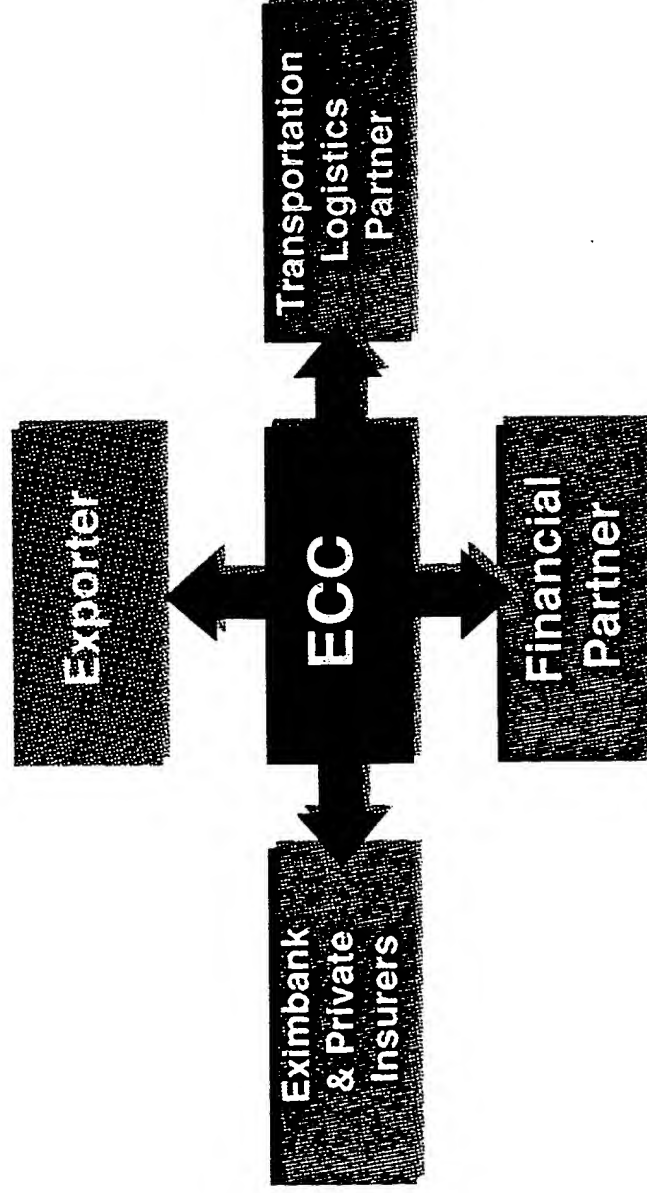
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Integration of Trade Finance Process

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- ECC will operate on a national basis to intermediate between Eximbank, private export credit insurers, the participating regional and local financial institutions and numerous U.S. export companies located throughout the United States



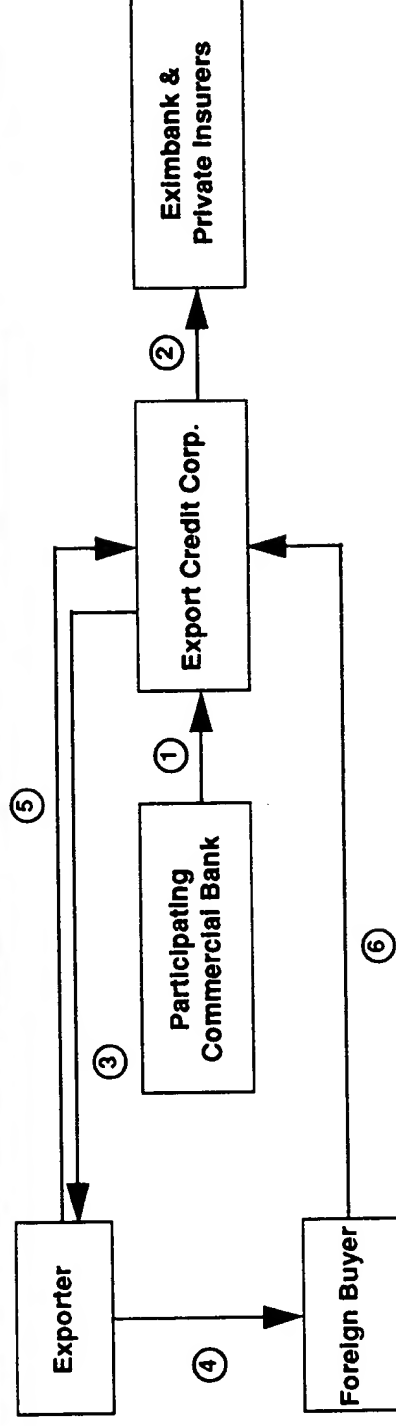
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Export Receivable Financing Structure

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1. Participating commercial bank or transportation logistics partner refers exporter to ECC
2. ECC determines eligibility of Exporter and its major foreign buyers for coverage under an export credit insurance policy with Eximbank or private insurance company
3. ECC provides commitment letter to the exporter agreeing to purchase/finance the export receivables of approved foreign buyers
4. Exporter ships goods and notifies foreign buyer to make payment to Lockbox account controlled by ECC
5. Exporter presents copies of documents evidencing the shipment to ECC which purchases/finances the export receivables and remits the proceeds (less holdbacks) to the exporter
6. Foreign buyer remits payment to Lockbox account



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Components of ECC Revenue

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- Service Fees Earned for Providing Key Export Functions:

– Fees on Short Term Export Shipments Financed:			
» Size	<u>Small Exporter</u>	<u>Medium Exporter</u>	<u>Large Exporter</u>
» Monthly	.83%	.50%	.33%

- Fees on Medium Term Financings:
 - » 1.00% of Financed Amount

- Service Fees Earned on Shipment Amount Assuming Receivables are Outstanding for 90 Days:

» Size	<u>Small Exporter</u>	<u>Medium Exporter</u>	<u>Large Exporter</u>
» Service Fee %	2.50%	1.50%	1.0%



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Components of ECC Revenue

Exportline

• Interest Income Earned on Amount of Financed Receivables:

– Nominal interest on Short Term Receivable Financed:

	<u>Small Exporter</u>	<u>Medium Exporter</u>	<u>Large Exporter</u>
» Size	Prime + 1%	Prime + .5%	Prime
» Rate			
» Monthly	.71%	.67%	.64%
» Annualized	8.50%	8.10%	7.65%

– Interest on Medium Term Financings:

» .75% Spread over Cost of Funds of Financed Amount

• Combined Cost of Fees and Interest on Short Term Financing Assuming Receivables are Outstanding for 90 Days:

» Size	<u>Small Exporter</u>	<u>Medium Exporter</u>	<u>Large Exporter</u>
» Cost to Exporter	4.63%	3.51%	2.92%



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Five Year Growth Assumptions

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	<u>Yr.1</u>	<u>Yr.2</u>	<u>Yr.3</u>	<u>Yr.4</u>	<u>Yr.5</u>	<u>Cum.</u>
• Number of Exporters						
- Small	8	24	38	50	65	
- Medium	7	14	24	30	37	
- Large	<u>4</u>	<u>10</u>	<u>16</u>	<u>21</u>	<u>28</u>	
» Total	19	48	78	101	130	
• Annual Shipments (\$M)						
- Small	5.8	30.3	65.7	92.0	115.0	308.8
- Medium	14.0	60.0	116.5	160.0	207.5	558.0
- Large	<u>13.1</u>	<u>69.1</u>	<u>140.9</u>	<u>191.6</u>	<u>258.1</u>	<u>672.8</u>
» Total	32.9	159.4	323.1	443.6	580.6	1,539.6
• Yr. End Financed Receivables (\$M)						
- Short Term	17.9	47.5	80.3	102.6	133.9	
- Medium Term	<u>5.0</u>	<u>23.0</u>	<u>56.0</u>	<u>91.0</u>	<u>125.0</u>	
» Total	22.9	70.5	136.3	193.6	258.9	
• ECC Revenue (\$M)	2.2	4.9	8.4	11.0	13.6	
• ECC Pretax Inc. (\$M)	.2	1.4	2.9	4.0	5.5	



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Return on Investment

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Three Components of Investment Return

- The Common Stock investment of \$5,000,000 is projected to yield a 32+% rate of return assuming a sale of the Company at the end of 5 years.
- The Redeemable Participating Preferred Stock investment (used to fund the first \$20,000,000 of insured/guaranteed export receivables) of \$20,000,000 is projected to yield a current coupon return of 6.5%, plus a participating dividend which will raise the total return to 13+% at the end of 5 years.
- Calpers could be an investor in the pool of securitized insured/guaranteed revolving short term and medium term receivables, which would be administered by ECC. These receivables would be priced to yield an attractive spread over comparable money market instruments. In addition, there would be no placement fees.



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Andersen Consulting

Exortline

- A key component of ECC's capability will be the feasibility and cost of developing the information systems needed to monitor and process the financing transactions
 - Based on preliminary conversations with Andersen Consulting, a PC based system using a LAN (Local Area Network) supported by a number of file servers can provide the needed hardware capability.
 - The software development will be the more time consuming and expensive part of the system.
 - There will need to be several custom designed and developed programs to handle all of the various components of the business both operational and financial.
 - These systems are intended to be integrated through a database(s) which will track transactions originated by the exporter, monitored, approved and financed by ECC, insured/guaranteed and reported to Eximbank and private insurers, shipped to the foreign buyer, confirmed with the freight forwarder and collected by ECC.
 - Based on Andersen Consulting's input, the Business Plan assumes that the cost to develop these systems will be \$1,100,000 with the majority of the funds (\$750,000) spent in the first year.



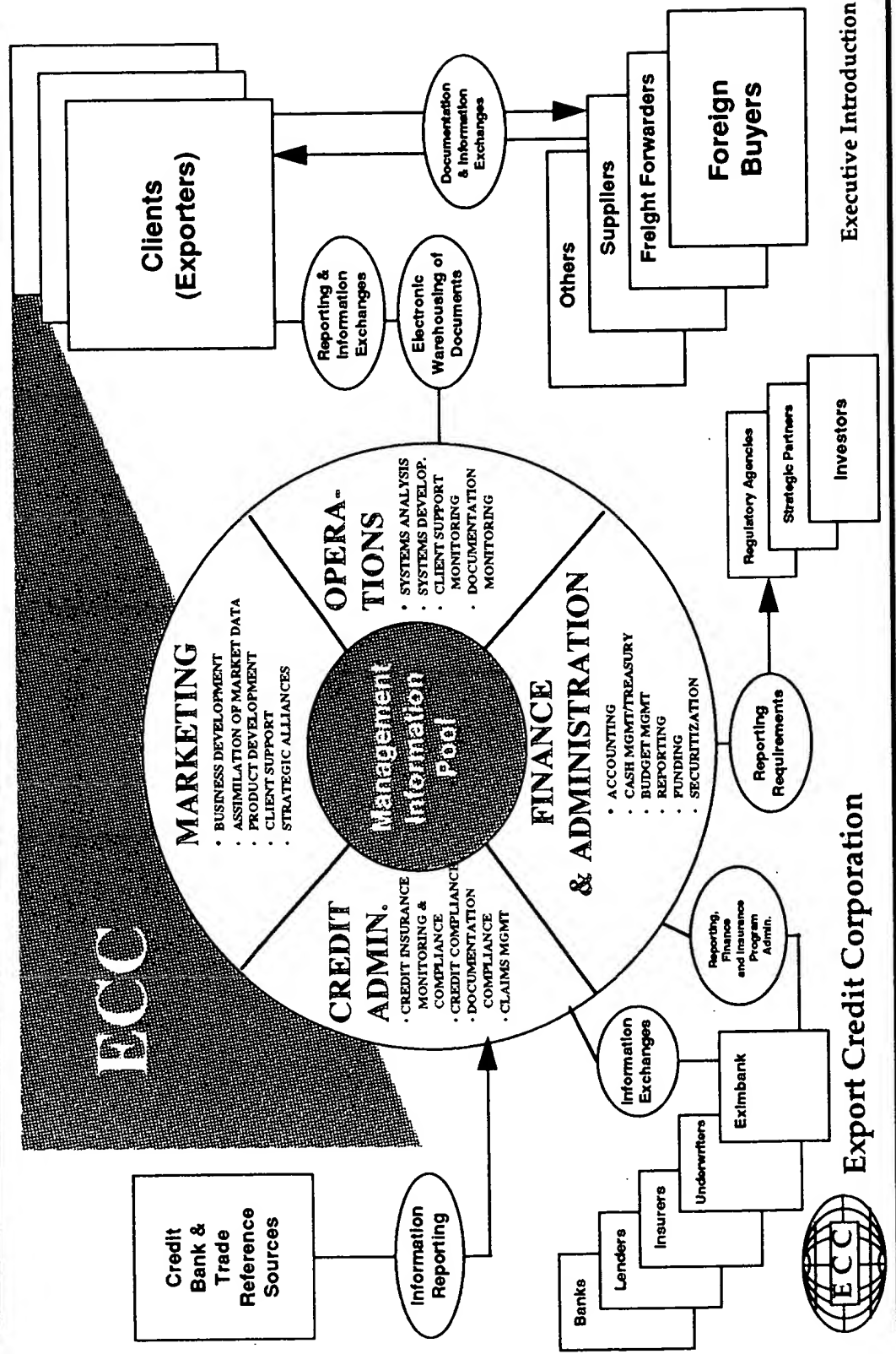
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Organizational Information Structure

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- ECC will serve the needs of:
 - Exporters by providing
 - » Export financing and receivables administration services
 - » Elimination of the need for foreign buyers to use their own bank credit facilities to open costly letters of credit
 - » Finance sales expansion without increasing credit and administration personnel
 - Eximbank and private Export Credit Insurers
 - » Will allow Eximbank and private insurers to provide service to small and medium-size exporters on a cost efficient basis
 - » Screening of Exporter and Buyer credit applications by ECC will speed up approval of credit insurance
 - Participating Financial Institutions
 - » Will allow participating financial institutions to offer their customers an efficient source of export finance
 - » Will provide computerized operational systems to administer export receivables and credit insurance
 - Transportation Logistics Partner
 - » Will allow partner to offer a unique service to its customers
 - » Will receive referrals of prospective new export customers
 - » Will provide exporters with improved cash flow in order to pay freight charges more promptly



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Risk Factors

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- **General New Business Risk**
 - ECC is a new venture and is subject to all the uncertainties of any new venture.
- **Operational Risks**
 - Perfecting computerized systems which support the monitoring of export receivables.
- **Risks of Export Credit Insurance Policies**
 - Certain policies include First Loss and Co-insurance Risk as well as Exporter Non Performance Risk.
- **The Recruitment and Retention of Key Personnel**
 - The Company must hire and retain highly qualified trade finance, marketing, operations, finance and administrative personnel.
- **Competition and Barriers to Entry**
 - Large capital investment required and limited personnel familiar with all aspects of trade finance, export credit insurance and securitization.
- **Securitization Risks**
 - All of the above systems and personnel must be in place in order to successfully package and securitize large pools of export loans.



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